PHILIP MORRIS MANAGEMENT CORP. INTER-OFFICE CORRESPONDENCE
120 PARK AVENUE, NEW YORK, N.Y. 10017-5592

TO: Murray H. Bring DATE: June 24, 1994

FROM: Steven C. Parrish

SUBJECT: PM USA Legal Department Monthly Report -June 1994

SALES

We have been advising the Trade Marketing group as they consider enhancements to the Retail Masters program and executional issues relating to Wholesale Masters.

We have prepared final papers for new five-year agreements with McLane and Wal-Mart, pursuant to which Philip Morris will be granted the exclusive rights to manufacture private label products for McLane, Wal-Mart, Sam's Club, and affiliated companies.

We have provided advice in connection with a change in Philip Morris' Returned Goods Policy. Our direct customers are being informed that, effective October 1, 1994, Philip Morris Sales personnel will no longer handle returns from retailers and that our direct accounts must handle returns from their customers.

We continue to work with Sales, Finance, and the Philip Morris Washington D.C. office in trying to address the problem of Philip Morris products manufactured for export which have been diverted into the domestic market. Reports from the State of Florida indicate that the persons responsible for the reimportation of export product are now selling directly to retailers, apparently because our direct accounts will not purchase export product for fear of losing direct account status with us.

We have been advising members of the Sales, Purchasing, and Finance functions in connection with a change in the manner by which we acquire fixtures and other point-of-sale materials for use at retail. Prospectively, PM USA will purchase the right to a design and bid out the manufacture of the product. This is in contrast to the former practice of awarding manufacturing rights to the vendor responsible for the design.

We attended the second meeting of this year's Trade Council on June 23 and 24 in New York.

Two legal presentations were given in June at the Unit Manager Learning Center in Connecticut.

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We attended a meeting of the Vice Presidents, Region Sales in New York on June 22.

We spent two days in the Field at the offices of Section 14 in Wayne, Pennsylvania, working with Sales personnel.

MARKETING & ADVERTISING

We have actively participated in a Retail Promotion task force comprising representatives of each brand group, the purchasing department and finance. Bain is moderating and the objective is to develop process mapping for the sourcing, packaging and distribution of incentives at retail. The task force was formed following several instances of delayed deliveries resulting in the reduction or cancellation of all or part of a retail program.

We have continued to attend meetings of a Marlboro Adventure Team ("MAT") control group formed to resolve data processing and merchandise fulfillment issues and a Marlboro Country Store ("MCS") control group formed to monitor data processing and merchandise fulfillment issues.

In compliance with the Federal Trade Commission's Mail Order Rule, we prepared delay letters delivered to consumers who will not receive MAT merchandise within the time period stated in our original offer.

We have responded to complaints received from state and local authorities and consumers objecting,, primarily, to delays in the delivery of MAT merchandise.

We have attended weekly meetings of, and provided advice to, the telemarketing and fulfillment vendors and Philip Morris personnel involved in the MAT, Merit Rewards, Cambridge, Parliament Getaway and MCS continuity programs.

We reviewed and approved a variety of direct mail and point-of -sale materials and trade overlays to be distributed in connection with MCS.

We have attended weekly status meetings of the Parliament, Merit and Discount brand groups in order to provide legal advice during the developmental stages for advertising and promotions.

We attended the depositions of four Philip Morris Purchasing Agents in Sanford v. Coleman and Philip Morris, the action pending in the United States District Court for the District of New Jersey for tortious interference with an exclusive manufacturer's representative agreement. We anticipate filing a dismissal motion if the claims against Philip Morris are not voluntarily withdrawn by the plaintiff.

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CORPORATE AFFAIRS

We are preparing a revised complaint for purposes of challenging proposed revisions to the San Francisco Smoking Ordinance.

Routine advice was given with respect to the legality of political contributions, gifts and honoraria.

Legislative proposals introduced in state and municipal legislative bodies were reviewed; analysis and argumentation were also provided.

Contracts were prepared for the Corporate Affairs Department and routine review of various communication strategies was provided.

OPERATIONS

In the B&W litigation, the parties filed, as the Court had directed, position statements on proposed settlement protocols. The Court has not established a settlement procedure.

We continue to assist management in negotiating, and to draft contract documents regarding, a long-term agreement with Universal Leaf Tobacco for buying, extrusion, stemming, hogshead repair and blending services. The parties expect to finalize their agreement shortly.

We continue to assist management in negotiating, and to draft contract documents regarding, a new vendor-operated finished goods warehouse in Richmond. The parties expect the necessary real estate transactions to occur shortly and to finalize the services agreement by the end of June.

We assisted Environmental Compliance & Engineering (EC&E) in conducting follow-up audits at several Richmond facilities. We conducted the first quarter environmental compliance meeting with EC&E management. We also participated in a training session for plant-level environmental coordinators on compliance with hazardous waste laws.

The Company has been sued in Richmond Circuit Court by Atlantic Office Supplies, a former vendor to the Richmond facilities. The suit alleges breach of contract and seeks approximately $500,000 in claimed lost profits. We are reviewing the facts and preparing responsive pleadings.

We attended a meeting of the Workplace Safety Specialty Task Force and reported on PM USA's ongoing compliance efforts, including its response to the CB&S audit.

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We provided routine advice and contract drafting support to Operations management.

MISCELLANEOUS

We are assisting in preparing our response to the FTC request for documents relating to the proposed BAT/American acquisition.

We presented a review of current legal development to the Trade Counsel.

PATENT ACTIVITIES SUMMARY FOR PERIOD ENDING 6/14/94

41 **Disclosures Being Prepared for Filing**
- (32) Disclosures Being Prepared In-House
- (9) Disclosures Being Prepared by Outside Counsel

83 **Applications Pending at PTO**
- (52) Being Prosecuted In-House
- (8) Being Prosecuted by Outside Counsel
- (23) Prosecution Closed--Close to Issuance

76 **US Patents Issued in 1993**
11 **US Patents Issued to Date in 1994**
451 **Foreign Applications Pending**

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